
**CITY OF LINCOLN
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED
JUNE 30, 2020**

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**CITY OF LINCOLN
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Lincoln, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements, and have issued our report thereon dated January 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lincoln's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lincoln's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lincoln's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Lincoln, California's Responses to Findings

City of Lincoln's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Lincoln's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "M. White, CPA".

Sacramento, California
January 4, 2021



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Lincoln, California

Report on Compliance for Each Major Federal Program

We have audited the City of Lincoln's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Lincoln's major federal programs for the year ended June 30, 2020. City of Lincoln's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lincoln's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lincoln's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lincoln's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lincoln, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the City of Lincoln is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lincoln's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lincoln's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements. We issued our report thereon dated January 4, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "M. C. [unclear] CPAs".

Sacramento, California
January 4, 2021

**CITY OF LINCOLN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number/Grant Number</u>	<u>Federal Expenditures</u>
U.S Department of Housing and Urban Development			
Direct programs:			
Community Development Block Grants/Entitlement Grants	14.228	Beginning Loan Balance	\$ <u>357,853</u>
Home Investment Partnerships Program	14.239	Beginning Loan Balance	<u>1,325,034</u>
Total U.S. Department of Housing and Urban Development			<u>1,682,887</u>
U.S Department of Transportation			
Direct programs:			
Airport Improvement Program	20.106	3-06-0120-025-2020	69,000
Airport Improvement Program	20.106	3-32-0120-023-2017	320
Airport Improvement Program	20.106	3-06-0120-021-2016	<u>50,349</u>
Total Airport Improvement Program			<u>119,669</u>
Pass-Through State of California Department of Transportation:			
Highway Planning and Construction	20.205	BRLS-5089(021)	61,674
Highway Planning and Construction	20.205	HSIPL-5089(020)	271,351
Highway Planning and Construction	20.205	CML-5089(025)	3,931
Highway Planning and Construction	20.205	STPL-5089(027)	1,584,478
Highway Planning and Construction	20.205	HSIPL-5089(026)	9,575
Highway Planning and Construction	20.205	SRPL-5089(028)	<u>83,493</u>
Total Highway Planning and Construction			<u>2,014,502</u>
Total U.S. Department of Transportation			<u>2,134,171</u>
Total Expenditures of Federal Awards			\$ <u>3,817,058</u>

**CITY OF LINCOLN
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Lincoln. The City of Lincoln reporting entity is defined in Note 1 of the City's Comprehensive Annual Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

NOTE 4: CLAIMS

The City of Lincoln has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

NOTE 5: LOANS OUTSTANDING

The programs listed below had the following aggregate federally funded loans outstanding at June 30, 2020:

Federal CFDA Number	Program Title	Amount Outstanding
14.228	Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	\$ 481,478
14.239	Home Investment Partnerships Program	<u>1,715,281</u>
	Total Loans Outstanding	<u>\$ 2,196,759</u>

NOTE 6: INDIRECT COSTS

The City elected not to use the 10% de minimis indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2020.

**CITY OF LINCOLN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance	No
Identification of Major Programs:	
Highway Planning and Construction, CFDA 20.205	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**CITY OF LINCOLN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION II: FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted *Government Auditing Standards*.

Finding 2020-001 Special Assessment Debt and Capital Project Funds (Material Weakness - Repeat Finding)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

GASB Statement No. 6 – *Accounting and Reporting for Special Assessments*, Paragraph 19 - The debt service transactions of a special assessment issue for which the government is not obligated in any manner should be reported in an agency fund rather than a debt service fund, to reflect the fact that the government's duties are limited to acting as an agent for the assessed property owners and the bondholders. The construction phase should be reported like other capital improvements--in a capital projects fund, or other appropriate fund. The source of funds in the capital project fund should be identified by a description other than - bond proceeds, such as - contribution from property owners. The capital assets constructed or acquired (other than those related to an enterprise fund) should be reported in the capital asset account group, as appropriate. Displaying the transactions in this way recognizes that the construction or acquisition is a governmental activity and results in the addition of a governmental asset but is not financed by governmental debt.

Condition

During our audit procedures, we noted approximately \$14 million of fiscal agent cash being expensed in various City capital project funds. Upon inquiry, it was communicated that the City was transferring unused special assessment debt bond proceeds back to their respective agency funds. The transfer of these funds indicates the City did not properly manage the debt proceeds or related capital projects.

Cause

The City has numerous issues of special assessment debt that have been refunded several times. Documentation to support the amounts of project funds by funding source and transfers has not been properly maintained. The City does not have procedures in place for the transferring of funds between the special assessment agency funds and the related capital project funds.

Effect

The City's expenses were overstated by the \$14 million initially recorded as expenses. Subsequently, these amounts were reclassified to Other Financing Uses to represent the outflow of monies from the City to the agency funds.

Recommendation

We recommend the City enhance their current procedures to reconcile their special assessment debt and related activity (cash with fiscal agent, special assessment revenue, bond payments, and capital projects) and ensure the funds are recorded in the proper fund and being tracked accordingly. Procedures should be developed for the transfer of special assessment bond funds to City capital project funds for the approved capital project. Transfers between the City's funds and Agency funds should be adequately supported and approved.

Views of Responsible Officials

The City is in agreement with the auditor's recommendation. The City has been working with bond counsel since July 2019 to address the Agency fund concerns and will develop procedures for the transfer of bond funds to City capital project funds for the approved capital project.

**CITY OF LINCOLN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS (continued)
FOR THE YEAR ENDED JUNE 30, 2020**

Finding 2020-002 Capital Assets (Significant Deficiency)

Criteria

Certain deficiencies in the internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

The City identified approximately \$1.2 million in capital asset adjustments that needed to be recorded as a prior period adjustment.

During our review of the asset detail, we noted an asset totaling \$152,697 was erroneously double counted on the asset listing.

Per our review of the asset detail, we noted several assets that are fully depreciated. We recommend the City perform an inventory to determine if those fully depreciated assets are still in use. If the assets are no longer in use by the City, the assets should be removed from the asset listing.

Cause

The City maintains a capital asset listing in both excel and an accounting module. These listings do not reconcile to each other.

Effect

Prior period adjustments totaling \$1.2 million were recorded to the current year trial balance.

Recommendation

We recommend the City assess their current supporting schedules for capital assets to ensure 1) they are mathematically accurate; 2) they only include relevant data; and 3) the reconciliations and journal entries are being properly prepared and reviewed. Further, the City should ensure their capital asset module reconciles to actual inventory.

Views of Responsible Officials

The City is in agreement with the auditor's recommendation. The City completed an inventory in 2019/2020 as part of our comprehensive cleanup effort for all capital assets. This effort resulted in prior period adjustments. Now that the inventory is complete and the supporting schedules for the capital assets are accurate, and include the appropriate data, any required journal entries and the capital asset module should continue to remain accurate in future fiscal years.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings and defined in section 200.516 of the Uniform Guidance

None reported.

**CITY OF LINCOLN
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2020**

Finding 2019-001 Special Assessment Debt Funds (Material Weakness)

Condition

During our audit procedures, we noted cash with fiscal agent reported in two of the City's governmental capital project funds was used as a source of funds in a special assessment bond refunding that was recorded in an agency fund. In addition, we noted cash was moved from an agency fund into two of the City's governmental capital project funds as a reimbursement for past, current and anticipated future expenditures and to clear deficit cash balances in the capital projects funds.

Recommendation

We recommend the City enhance their current procedures to reconcile their special assessment debt and related activity (cash with fiscal agent, special assessment revenue, and bond payments) and ensure the funds are recorded in the proper fund. Funds that tracked special assessment debt that have since been refinanced or paid off should be closed. The City should also ensure that each fund's cash balance is sufficient to cover the required bond payments. Transfers between the City's funds and Agency funds should be adequately supported and approved.

Status

Not implemented. See 2020-001.

Finding 2019-002 Grant Accounting (Significant Deficiency - Repeat Finding)

Condition

During our evaluation of grant revenues, grants receivables, and grant unearned revenue, the City brought to our attention that grant activity was not properly being recorded as retention related to construction projects were not taken into consideration when reconciling grant activity at year-end.

Recommendation

We recommend the City maintain proper oversight of the grant administration policy throughout the fiscal year and ensure those reconciling grant activity are aware of proper financial reporting.

Status

Partially implemented. See separate management letter.

Finding 2019-003 Federal Grant Procedures Manual (Uniform Guidance Compliance)

Condition

The City has not updated the Federal Grant Procedures manual for compliance with the Uniform Guidance as required for fiscal year 2018-19.

Recommendation

We recommend that the City review the Uniform Guidance procurement requirements and update the Federal Grant Procedures manual for compliance with the Uniform Guidance.

Status

Implemented.